HOUSING MARKET OUTLOOK

Metro Victoria

Canada Mortgage and Housing Corporation

SPRING 2004

2004-05 at a Glance

- ***Victoria's housing markets growing***
- ***Resale market sales strong, prices climbing***
- ***New homebuilding rising - both singles and multis***
- ***Rental market vacancy rate to ease***
- ***New home market demand trending up***
- ***Land sales slow, lot prices on rise***

IN THIS ISSUE

Resale Market.....1
Sales up slightly in 2004; prices to continue rising
New Home Market.....3
Strong homebuilding in 2004-05
Land Supply.....5
Land prices up, fewer sales
Rental Market.....5
Vacancies to rise in 2005
Economic Overview.....6
Growth escalating
Renovation Highlights.....7
More renovations on horizon
CMHC Forecast Summary.....8

RESALE MARKET

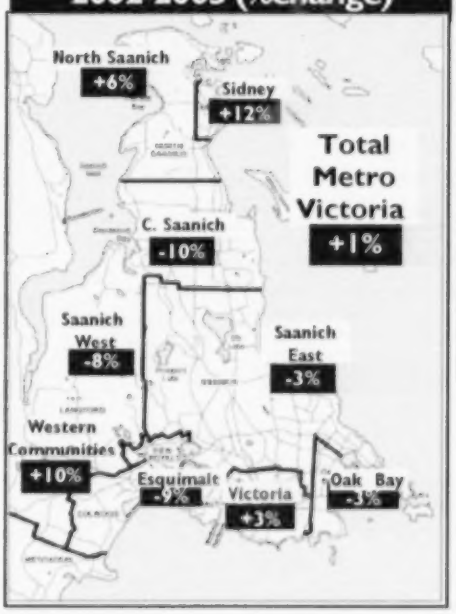
Prices continue uptrend

MLS®[1] average prices are forecast to edge higher in 2005, following strong increases for 2003-04. Prices are forecast to average $362,000 for houses, $269,000 for townhouses and $198,000 for condo apartments.

The number of **homes sold in Metro Victoria will slow in 2005 from 2004's frenzied pace but remain at strong levels**. This year, growth in condo apartment transactions will lead the forecast increase in sales.

continued on page 2...

House Sales by Sub-market, 2002-2003 (%change)



[1]Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

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CMHC SCHL

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Resale Market ...continued from page 1

Single family home sales are forecast to reach 4,690 in 2004, then edge down to 4,510 in 2005. Condo **apartment and townhouse sales will grow at a faster pace**, coming in at a forecast 1,800 apartment and 780 townhouse transactions in 2004.

Metro Victoria 2004 **single family home sales are 10% ahead of** last year's levels, for the first quarter. Last year saw a 1% growth in sales (see map on page 1), led by **jumps of 12% in Sidney** and **10% in the Western Communities**. This year, strong growth markets are forecast in **Saanich, Victoria City** and again, in **Sidney** and the **Western Communities**.

MLS® House Sales by Market

1st Quarter 2004, Metro Victoria

	Average House Price	Average Days to Sell	Average Size Sq. Ft.
Victoria City	$361,048	33	1,865
Oak Bay	$599,357	31	2,494
Esquimalt	$303,126	37	1,742
Saanich East	$420,822	37	2,365
Saanich West	$282,333	38	1,813
Central Saanich	$332,945	33	2,101
North Saanich	$569,300	75	2,777
Sidney	$301,200	31	1,688
Western Communities	$335,114	54	2,160

Source: Victoria Real Estate Board, CMHC Victoria

Single family house average prices will rise 8.5% in 2004 and a further 1.7% in 2005 as demand continues strong. **Rising buyer activity** in the trade-up market is pushing prices higher this year.

Prices are continuing the uptrend first noted in early 2001 when demand for homes began to escalate. By late 2004 more listings are expected to come on to the market, easing the undersupply and resulting in **less upward pressure on prices**.

Single family home listings remain low as of first quarter 2004, pushing prices higher. Low interest rates and rising consumer spending on housing maintain strong market demand and the market continues to favour sellers.

Year-to-date 2004 figures show an exceptionally high sales-to-active listings ratio for single family homes, approaching 60% this spring. Houses are taking an average of 35 days to sell, down from 41 last year and 49 in 2002. Listings are down 17%, and the average sale price is up 21%. These figures indicate the single family **house market currently favours sellers**, and is not forecast to return to balanced conditions until mid 2005.

Saanich West Houses Least Expensive

Saanich West replaced **Esquimalt** as the most affordable Metro Victoria market in first quarter 2004, with an average house price of $282,333.

Sidney and **Esquimalt** were also less expensive than other areas, at $301,200-303,126. The **Western Communities** and **Central Saanich** were the only other areas with average prices below $350,000.

Oak Bay and **North Saanich** continued to lead the **trade-up market**, with average prices shooting up to $599,357 and $569,300. **Saanich East** and **Victoria City** averaged $420,822 and $361,048.

Condo Markets Heat Up

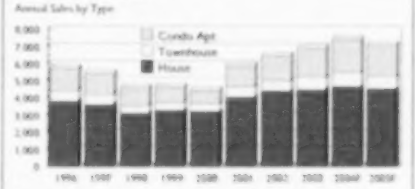
Metro Victoria's **townhouse and apartment condominium sales** will outperform the rise in single detached sales in 2004-5. These markets also favour sellers, and prices are rising quickly.

Average townhouse **prices continue to climb,** and are expected to surpass $265,000 next year. The market has favoured sellers since mid 2002, following four years of buyers' market conditions. During first quarter 2004, townhouse sales grew 10%, active listings plunged 45%, and average prices surged ahead by 33%. Few listings and steady demand is putting **strong upward pressure on prices**.

Apartment condo prices will approach $200,000 in 2005 due largely to the anticipated influx of newly completed suites now under construction. The following market indicators confirmed a **sellers' market for apartment condos** during first quarter 2004: sales jumped 34%, active listings slipped 10%, and average prices rose 16%.

MLS® SALES

METRO VICTORIA



Source: Victoria Real Estate Board, CMHC Victoria

Mortgage Carrying Costs Climbing

Higher single family house prices mean larger **qualifying income** for purchasing a home this year, despite low interest rates. In 2005, qualifying income required for average-priced homes **will shoot up to record levels, forecast at $93,463**, from $87,238 in 2004.

Fewer households will qualify to purchase homes in late 2004 and through 2005, as interest rates and home prices rise. Metro Victoria homebuying qualifying income calculations are based on actual interest rates, MLS® average house prices to 2003 and CMHC forecasts for 2004-05 (see back page for details). ❖

Visit **www.housingaffordability.ca** for the latest on getting housing to market more affordably in B.C.'s Capital Region. **Housing Affordability Partnership (HAP)** is a cross-sectoral group working to highlight awareness of emerging housing issues and opportunities.

Contact **Lee F. King**, CMHC's Corporate Representative, for more details. (250) 363-8050 lking@cmhc.ca

NEW HOME MARKET

New Home Market Robust

New homebuilding **will surpass 2003 levels in both 2004 and 2005,** improving on the recovery begun in 2001-02. **Single detached houses and apartment condominiums will continue to dominate Victoria's new home markets,** as they have since 2001 when rental construction led the pace.

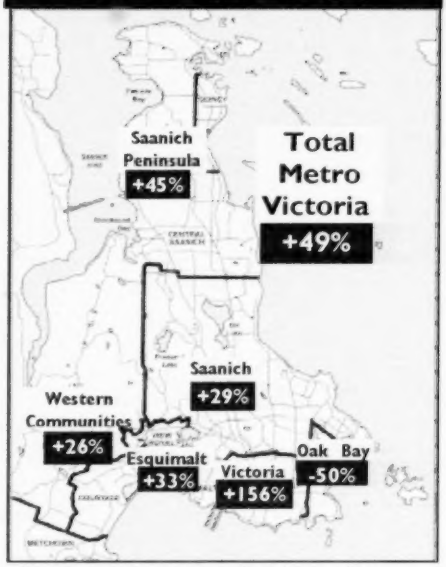
Move-up and move-down buyers will remain major players in the new home market through 2005 as equity growth in their current homes improves with the strong resale market. **First-time buyers will also be active**, despite rising interest rates and prices, as the choice of new condos and affordable houses grows. **Investors form the third major buyer segment**, attracted by rising real estate prices and strong rental demand.

CMHC forecasts **2,280 new home starts for Metro Victoria during 2004 and 2,165 in 2005**. The Capital Region's improved levels of construction are tracking the B.C. homebuilding recovery.

New House Demand Rising

Single detached house starts are forecast to **exceed 1,000 units annually in 2004-05** as strong demand for new houses continues. New house building has doubled its pace since 2000.

New Housing Starts, 2002-03 (%change)



Single detached housebuilding is 7% ahead of last year's levels, in first quarter 2004. Demand for new houses continues to be driven by **strong resale market sales, rising consumer confidence, employment growth, steady price growth** and **low interest rates**.

The new **house market will remain balanced through the end of 2005,** as supply keeps pace with demand. A small but growing market for speculative building will contribute to a **slight rise in inventories**. However, most new houses are sold before or during construction, keeping the market in balance. **High lot costs, rising development fees** and **financing restrictions** continue as hurdles for homebuilders.

This year, the **Western Communities** will again capture Metro Victoria's **largest market share of new house starts** taking 58% of the total (up from 54% in 2003). **Saanich** is the strongest single municipality, with close to a one-third share of new housebuilding, followed by **Langford**, with a one-fifth share. Subdivisions are under development in **Sooke**, **View Royal**, **Langford**, **Colwood**, and **Saanich** - several with multi-year buildouts.

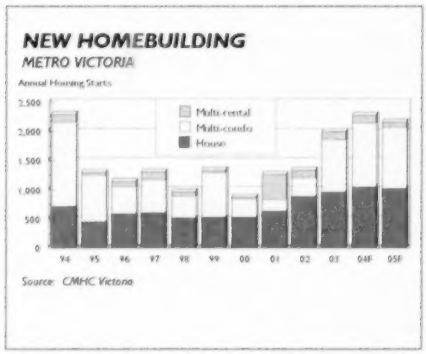
New House Prices Higher

Strong demand and higher building costs are **spurring new house prices higher.** This year, the median new house price will rise 4.3% and it is **forecast to rise a further 4.1% in 2005**.

New homebuyers will have **a wide range of new houses to choose from this year,** patterned after the diverse selection available since 2000. Many new houses will get underway on affordable lots: the market for these modest new homes is **extremely price-sensitive**, keeping sale prices in check despite rising costs.

More construction of **modest houses** in **View Royal, Langford, Colwood** and **Sooke** is **moderating price increases**. Higher-end new houses are located in **Saanich, North Saanich, Oak Bay** and on large properties in the **Western Communities**.

Prices for 1½ storey houses will edge up in 2004, with a forecast median of $345,000 compared with $339,000 in 2003. **New two storey median house prices are forecast at $370,000.** One storey prices are expected to **continue rising as more luxury retirement houses are built:** half will be priced under $315,000, up from $309,000 in 2003.



New Home Market... continued from page 3

New Townhouse Market Steady in 2004-05

New townhouse starts are expected to be triple 2001's level in 2004-05, but will be slightly off the blistering pace set in 2003. Over the next two years, starts are forecast at 185-195 annually; in 2003, 206 new townhouses broke ground.

During the first three months of 2004, **16 townhouses got underway,** far fewer than the 52 started during the same period in 2003. At March 2004, **19 newly completed townhomes were available for sale**, down from 24 at the same time last year.

New townhouse **projects continue to be held back** by **high land prices** caused by a **shortage of suitably zoned and serviced sites**. Market share of **family-oriented townhouses,** containing three or more bedrooms, is growing. This year, **market share of three bedroom units** is forecast to approach 60%, up from 56% in 2003, 47% in 2002 and 42% in 2001.

In 2004, median **prices are forecast to rise 10% to $285,000 for a new three bedroom townhouse,** pushed higher by strong sales and limited supply of new units. The 2005 price increase is forecast at 4.6%.

New Apartment Condo Market Explodes

Last year saw five times 2002's level of **new condo apartment starts, and a further 35% increase is forecast for 2004.** Meanwhile, **new rental apartment construction will remain slow in 2004-05** as more investor-owned condos come onto the rental market.

Strong demand for luxury condo suites and growing demand for mid-range and affordable product in convenient locations is driving building in a variety of suite styles and locations.

Metro Victoria new condo apartment inventories remain at low levels this spring, with just 31 completed and for sale at March 2004. **The market is classified as oversupplied** due to the large number of units (706 at March 2004) under construction. However, many units are pre-sold, a reflection of strong market demand.

Apartment condo inventories edged up slightly during the first three months of 2004, as **179 units completed and 168 sold**. CMHC expects the **new condo apartment market** will **remain oversupplied through 2005** as builders respond to strong demand.

Luxury condos, **trendy** downtown units and **moderate suburban suites** are all seeing strong demand, although the majority of 2004-5 building is getting underway in downtown Victoria City.

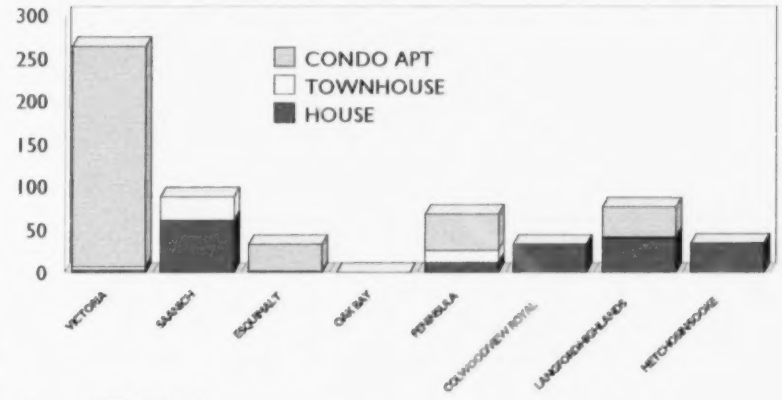
Last year, the most popular price range for both one and two bedroom suites was $140,000 to $180,000. This year's **hot price points are $140-160,000 for one bedroom suites** and $220-240,000 for two bedroom units.

Last year's shift away from luxury suites, which were popular in 2001-02, led to a drop in median price. **Prices are expected to trend up through 2005**. Condos in prime locations (waterfront or waterview) in downtown Victoria will lead the anticipated price increases.

Median new **apartment condo prices will rise to $275,000** in 2004 and $280,000 in 2005. **Price increases will be kept in check** by variations in product mix during 2004-05: a modest proportion of luxury vs. affordable or midrange suites is expected.

New condo buyers can choose from a growing selection of prices, styles and locations. Most 2004 condos will be built on **Saanich and Victoria City redevelopment sites**, while others will get underway in the **Saanich Peninsula, Esquimalt** and the **Western Communities.** ❖

NEW HOUSING STARTS BY TYPE BY AREA, METRO VICTORIA
January-March 2004



Source: CMHC Victoria

Victoria City captures lions' share of new apartment condos.

Land Prices Up, Fewer Sales

Single family lot **prices are hitting new highs this spring** in Metro Victoria, while sales volumes decline. Lot **sales are strongest in the Western Communities**, but are waning in other Metro Victoria areas due to supply constraints.

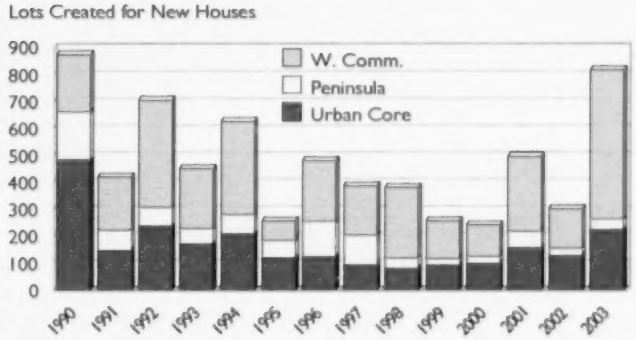
The median price for serviced lots in the six months ended March 2004 included **$215,000** in **Saanich**, **$225,000 in North Saanich, $240,000 in Central Saanich**, **$125,000** in **Langford, $130,000 in Colwood** and **$180,000** in **Metchosin**.

Sales of Metro Victoria **multiple land sites** remain slow, as few **new townhouse and apartment projects** get underway on land which has recently sold. Land prices per unit in 2004 range from $30-50,000 for apartments to $50-90,000 for townhouses.

Single family dwelling **land supply jumped in 2003** with additional lots created in the Capital Region; more new lots are expected to come on stream in 2005. The largest share of new single detached lots is located in the **Western Communities.**

The ongoing **land shortage**, combined with high prices and financing restrictions will **erode housing affordability through 2005**. Housebuilding is growing in 2004-05, and the region-wide lot supply constraint **is driving lot prices higher**. New subdivisions in **Langford, Sooke, Colwood** and **View Royal** will improve lot supply through 2005. ❖

HOUSE LOT CREATION
BY AREA, METRO VICTORIA



Graph: CMHC Victoria Data: CRD Development Review

B.C. RENTAL MARKET TRENDS

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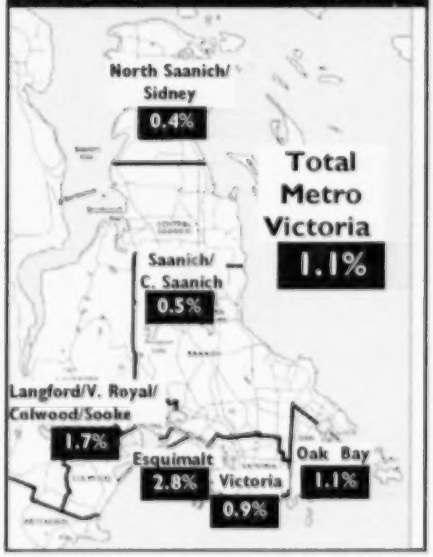
Vacancy rate to Edge Up

Rental apartment vacancies are expected to rise in 2005, as some tenants leave rental suites in favour of newly completed condos. This year, vacancy rates will edge up to 1.3% from 1.1% reported in 2003. Average rent **increases will exceed 3% annually,** overtaking the inflation rate. Limited choice of **rental apartments** will be available in most Metro Victoria submarkets through 2005. Low vacancies and rising rents will also apply to the **rental townhouse market** in 2004-05.

Market rental construction will remain a small part of new multi-family projects in 2004-05. **Ongoing barriers to rental development** include high land costs, municipal DCC's, weak industry response to municipal incentives for affordable housing, and limited non-profit financing from government. Investors find these impediments render new rental development **unviable**, thus will pursue other opportunities such as **mixed-use, niche market, condo, or commercial projects**.

Victoria Rental Submarkets,2003
Average Apartment Vacancy Rates



Economy: Growth Escalating

Metro Victoria economic growth will **track BC's strong growth** over the next two years. Next year's growth is forecast at slightly stronger levels than 2004.

For 2004-05, CMHC anticipates **improvements** in the provincial economy, employment and **net migration**. BC interprovincial migration recorded a net inflow of 2,094 last year. The 1998-2002 period was characterized by net outflow of people to other provinces, so 2003 results mark a turnaround, and more improvements are expected in 2004-05. **International migration** continues at a steady pace (27-32,000 annually). Migration improvements boost provincial housing markets.

Metro Victoria population is forecast to hit 322,300 next year, up 1.0% over 2004's total of 319,100. In 2004, net migration to Victoria will **follow B.C. trends**, improving to 2,350 from 2,200 in 2003.

Victoria employment is forecast to grow 2.7% this year and a further 2.9% in 2005 after rising 1.9% in 2003. This year's gains are expected to be strongest in **construction, retail trade, finance, insurance** and **real estate,** while slow recovery will occur in **manufacturing, health care,** as well as **defense and primary industries**. Negative growth is expected in **public administration.**

Metro Victoria's **unemployment rate** is expected to remain low over the next 18 months, at close to 6%. Unemployment lessened in spring 2004, from last year's average of 6.1%. BC unemployment will track close to 8% in 2004-05.

At March 2004, the **value of major capital projects** proposed, planned or under construction in Metro Victoria totalled **$1.5 billion**, a 15% increase from the spring 2003 figure. Major projects **scheduled to break ground in** 2004-05 include the second phase of **CRD offices, Buckerfields Project, Sheraton Hotel in Langford** and **Belleville Street Terminal redevelopment.**

Developments underway with **multi-year buildouts** include **Victoria International Airport expansion, UVic Expansion, Selkirk Waterway, Christmas Hill, Bear Mountain Golf Resort, CFB Esquimalt Improvements, Sun River Estates, Cordova Bay Road** residential and industrial complex and the **Royal Bay Project**.

The Metropolitan Victoria economy will continue to expand through 2005, with the **high technology industry** (including call centres), **education** and **film production** playing major roles. Victoria is home to **BC's second largest technology market** after Vancouver.

Tourism is expected to continue its improving trend through 2005. A **record number of cruise ships** are set to arrive at Ogden Point during 2004. **Two new hotels**, the Brentwood Bay Lodge & Spa and the Marriott, are set to open in May '04.

First quarter 2004 results indicate the **highest hotel occupancy rate in Victoria since 1999** - confirmation that Victoria tourism has shaken the shadows of recent terrorism events, SARS, etc.

First quarter 2004's hotel occupancy rates were **up 4%** while 2003 saw a 1.2 % dip. Tourism Victoria expects **moderate growth in tourism revenue** for 2004-05.

Mortgage Rates Up in '05

Mortgage rates will begin to rise late in 2004 but will remain low by historical standards through 2005. Expect long-term rates to move up slowly while short-term rates stick to low levels over the next few months.

One, three, and five year closed mortgage rates will increase next year to the 4.25-5.25, 5.75-6.75 and 6.25-7.25 per cent range, respectively.

Rates are expected to approach the high end of the forecast ranges by the end of 2005. **Mortgage rate discounts** will remain an important competitive instrument over the forecast horizon. ❖

2004 Canadian Housing Observer Available Soon on CMHC's website

A comprehensive overview of Canadian housing conditions and trends and the key factors behind them - compare rents, prices and other housing indicators in major metropolitan areas. An important tool to help identify, address and monitor Canadian housing trends and issues, the Observer provides an integrated view of the housing challenges and changing needs of Canadians.

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RENOVATION MARKET

RENOVATIONS GROWING

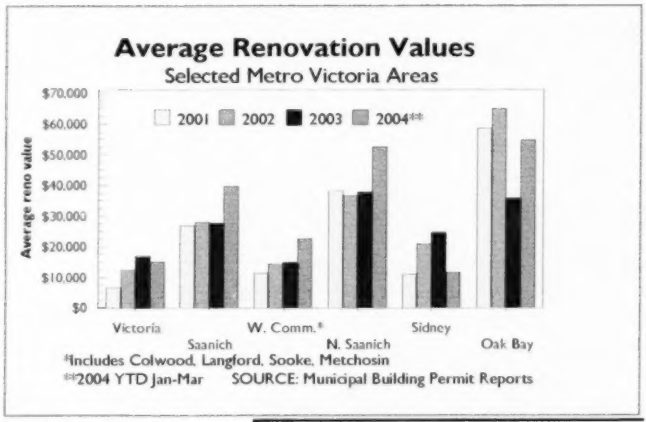
Metro Victoria is again seeing **more renovations underway this year** compared with previous years; renovation values are also on the rise. In 2005, both project volumes and average renovation values are forecast to improve on 2004 levels.

The 2002-04 resale market rebound has boosted renovation activity. Some buyers prefer to **purchase and make improvements** to existing housing instead of buying new homes. Rising renovation volumes since 2001 mean more stability in both the **construction** and **real estate** sectors. High **development and lot costs** and an **aging housing stock** are pushing renovations higher in both value and volume this decade throughout Victoria.

During the first three months of 2004, the **number of building permits issued for residential renovations** in the **City of Victoria rose 16% from** 2003 levels while **Saanich's** permit tally rose 18%. **Western Communities** renovation volumes almost doubled from the previous year. These three areas account for the bulk of all residential renovation permits issued in all of Metro Victoria. **Oak Bay** permit volumes dipped 15% while **Esquimalt** fell one-quarter. **Saanich Peninsula** permit volumes held steady compared with 2003.

January-March 2004 Metro Victoria average renovation values **grew 2% from** 2003 levels. **Oak Bay** led area markets, with average residential renovation permit values of $54,522. **North Saanich** was next highest, at $52,412. Average permit values in **other area markets ranged from $7,955 through $42,909**.

The trend to higher renovation spending reflects **more substantial projects** and, increasingly, **rising materials and labour costs**. Current homeowners and new purchasers are renovating for **home offices**, **secondary suites** and **media rooms**, as well as more traditional **kitchen, bathroom, deck, basement** and **attic/additions**. ❖



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CMHC FORECAST SUMMARY

Victoria Metropolitan Area

April 2004

RESALE MARKET	2002	2003	2004F	2005F	Chg
MLS® Listings	8,976	9,063	9,500	9,800	3.2%
MLS® Sales					
Single-family	4,430	4,477	4,690	4,510	-3.8%
Townhouse	584	744	800	780	-2.5%
Condo Apartment	1,451	1,712	1,910	1,800	-5.8%
TOTAL	*6,465*	*6,933*	*7,400*	*7,090*	*-4.2%*
MLS® Price					
Single-family	$280,218	$328,005	$356,000	$362,000	1.7%
Townhouse	$212,988	$246,500	$264,000	$269,000	1.9%
Condo Apartment	$150,547	$180,493	$195,000	$198,000	1.5%

NEW HOME MARKET					
Starts					
Total	1,344	2,008	2,280	2,165	-5.0%
Single-family	879	969	1040	1020	-1.9%
Semi	73	91	120	110	-8.3%
Townhouse	140	206	185	195	5.4%
Condo Apartment	127	600	810	750	-7.4%
Rental	125	142	125	90	-28.0%
Complete & unoccupied (monthly average)					
Total	119	106	148	190	28.4%
Single-family & Semi	47	62	68	90	32.4%
Townhouse	5	21	20	20	0.0%
Condo Apartment	67	23	60	80	33.3%
Median New Home Price					
Single-family	$299,925	$349,900	$365,000	$380,000	4.1%
3 Bed. Townhouse	$265,000	$258,450	$285,000	$298,000	4.6%
2 Bed. Condo Apt	$284,250	$267,500	$275,000	$280,000	1.8%

RENTAL MARKET				
Vacancy Rate (Oct.)	1.5%	1.1%	1.3%	2.2%
% Increase in apartment rents	2.5%	2.5%	3.5%	4.5%

ECONOMIC OVERVIEW				
Mortgage Rate (3 yr.)	6.28%	5.82%	5.46%	6.04%
Employment Growth	1.5%	1.9%	2.7%	2.9%
Net Migration	2,030	2,200	2,350	2,500

F = CMHC Forecast

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